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REGULATORY AUTHORITY
BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 20, 2001

IN RE:

UNITED CITIES GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 01-00593**

**NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE
TENNESSEE REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority (the "Energy and Water Division") hereby gives notice of its filing of the United Cities Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of United Cities Gas Company (the "Company").

2. The Company's WNA filings were received on November 1, 2000, through April 30, 2001, and the Staff completed its audit of same on September 17, 2001.

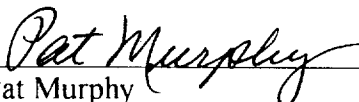
3. On September 18, 2001, the Energy and Water Division issued its preliminary WNA audit findings to the Company, and on September 20, 2001, the Company responded thereto.

4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is

attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:



Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of September, 2001, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Ms. Patricia Childers
Vice President of Regulatory Affairs
United Cities Gas Company
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Franklin, TN 37067-6226

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Attorney General's Office
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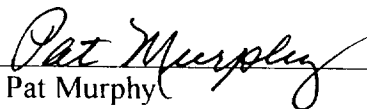

Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

UNITED CITIES GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 01-00593

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

SEPTEMBER 2001

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COMPLIANCE AUDIT
UNITED CITIES GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 01-00593

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COMPLIANCE AUDIT

UNITED CITIES GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

I. OBJECTIVE OF AUDIT

In its September 26, 1991 Order in Docket 91-01712, the Tennessee Regulatory Authority ("TRA" or "Authority"), formerly the Tennessee Public Service Commission, approved a three year experimental Weather Normalization Adjustment ("WNA") Rider to be applied to residential and commercial customers' bills during the months of October through May of each year. In its June 21, 1994 Order, the Commission adopted the WNA Rider as a permanent rule, to be applied November through April of each year for United Cities Gas Company. (See Attachment 1) The purpose of this audit is to determine if the WNA rider was calculated and applied to customers' bills correctly between November 1, 2000 and April 30, 2001.

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- 1) The Company's actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days;
- 2) The Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- 3) The Company's calculation of the WNA factor to Staff's calculation. The Staff also audited a sample of customers' bills during the WNA period to verify that the WNA factor had been correctly applied to the bills.

Pat Murphy and Butch Phillips of the Energy and Water Division conducted this audit.

III. BACKGROUND OF WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts:

- 1) The customers' bills fluctuate dramatically due to changes in weather from month to month.
- 2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

IV. IMPACT OF WNA RIDER

The graphs appearing at the end of this section show a comparison of actual heating degree days to normal heating degree days for United Cities Gas during the 2000 - 2001 heating season, in each of its four service areas. In each area four (4) of the months were colder than normal and two (2) of the months were warmer than normal. Overall, weather was 7.6% colder in the Bristol area, 8% colder in the Knoxville area, 11.1% colder in the Nashville area, and 16.9% colder in the Paducah area. The following tables show a comparison of the actual degree days (ADD) to normal degree days (NDD) by month for the four weather stations.

Bristol:

Month	ADD	NDD	Percent Change	
November 2000	619	531	16.6	Colder
December 2000	1053	805	30.8	Colder
January 2001	979	937	4.5	Colder
February 2001	602	756	20.4	Warmer
March 2001	675	553	22.1	Colder
April 2001	<u>232</u>	<u>284</u>	18.3	Warmer
Total	4160	3866	7.6	Colder

Knoxville:

Month	ADD	NDD	Percent Change	
November 2000	522	460	13.5	Colder
December 2000	955	726	31.5	Colder
January 2001	908	853	6.4	Colder
February 2001	530	665	20.3	Warmer
March 2001	571	463	23.3	Colder
April 2001	<u>155</u>	<u>203</u>	23.6	Warmer
Total	3641	3370	8.0	Colder

Nashville:

Month	ADD	NDD	Percent Change	
November 2000	518	451	14.9	Colder
December 2000	1051	729	44.2	Colder
January 2001	912	870	4.8	Colder
February 2001	565	678	16.7	Warmer
March 2001	602	466	29.2	Colder
April 2001	<u>124</u>	<u>201</u>	38.3	Warmer
Total	3772	3395	11.1	Colder

Paducah:

Month	ADD	NDD	Percent Change	
November 2000	611	483	26.5	Colder
December 2000	1205	797	51.2	Colder
January 2001	1006	954	5.5	Colder
February	643	736	12.6	Warmer
March 2001	682	503	35.6	Colder
April 2001	<u>147</u>	<u>199</u>	26.1	Warmer
Total	4294	3672	16.9	Colder

Due to the fact that overall the winter was colder than normal, the net impact the WNA Rider had on the Company's revenues was that residential and commercial customers were **refunded** \$1,235,609 and \$686,731 respectively. This equates to a decrease in revenues from residential and commercial sales of -6.36% and -5.01% respectively. (See Table 1) This is down from the previous year when the residential and commercial customers were **surcharged** \$1,749,787 and \$801,525 respectively. (See Table 2)

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2000 - April 30, 2001**

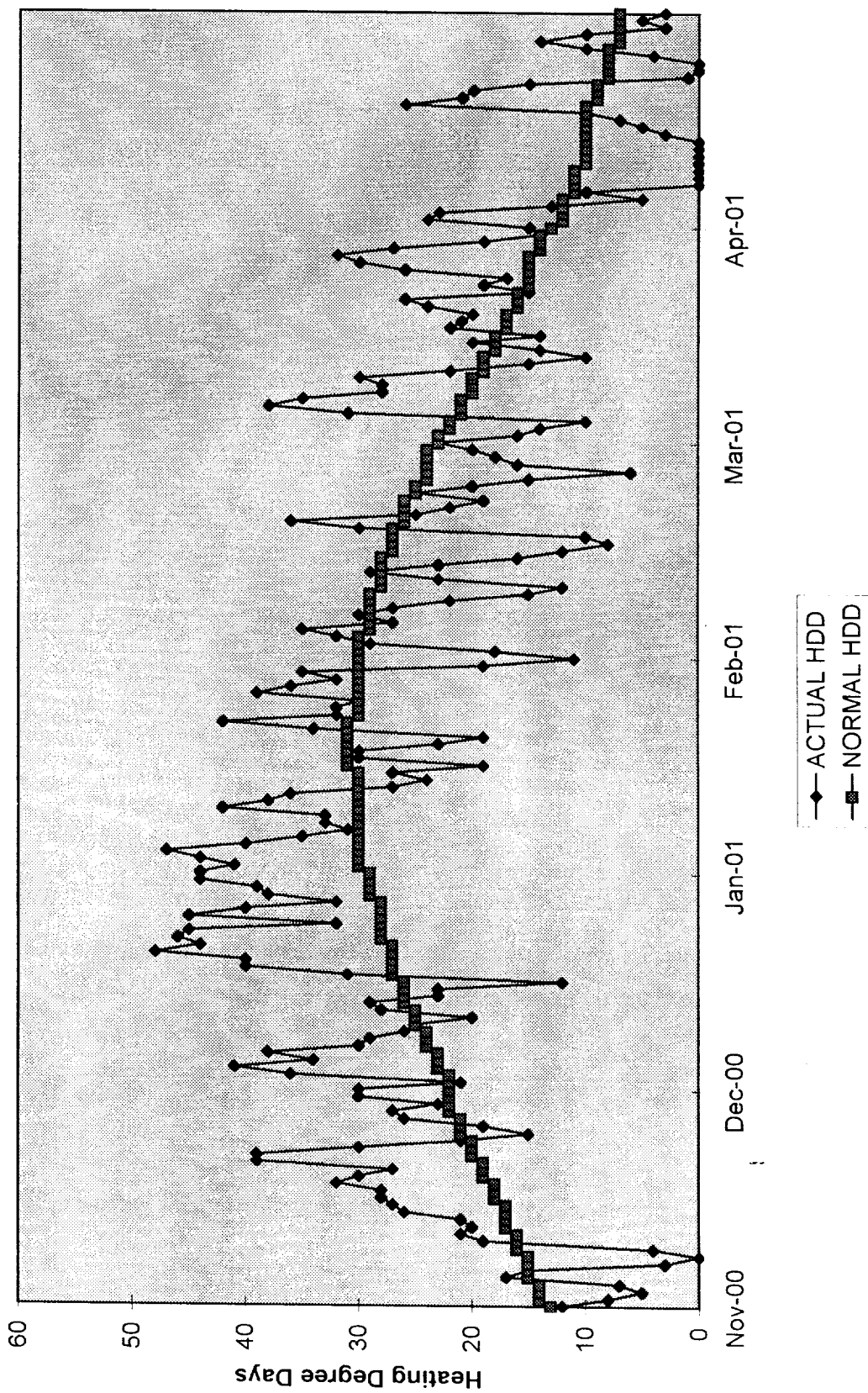
	WNA Rider Revenues	Total Revenues	Percentage Impact of WNA Rider On Revenues
Residential Sales	\$ -1,235,609	\$ 19,432,492	-6.36%
Commercial Sales	<u>-686,731</u>	<u>13,700,746</u>	-5.01%
Total	\$ -1,922,340	\$ 33,133,238	-5.80%

Table 2

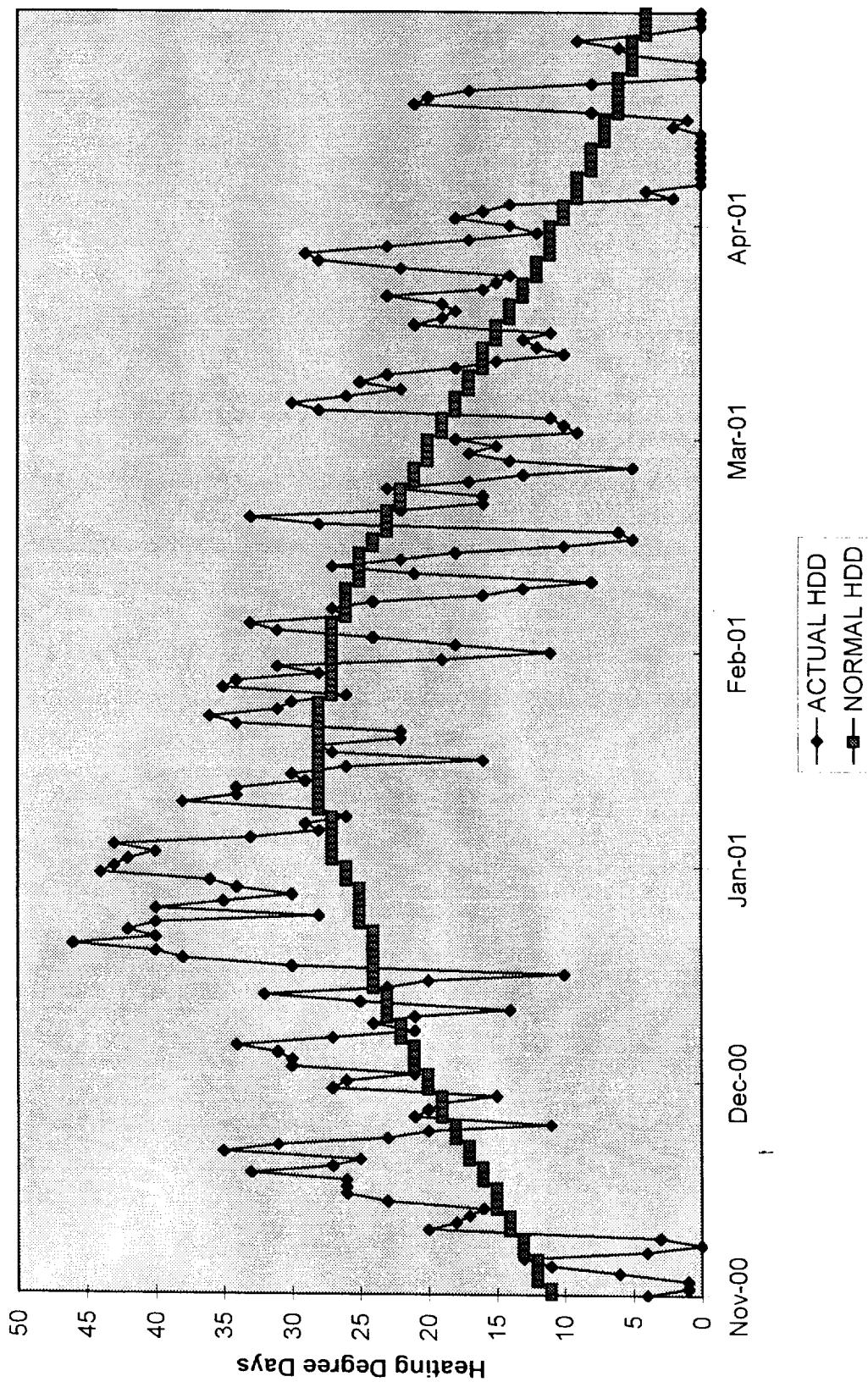
**Amount Surcharged (Refunded)
1998 - 2001**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/Refund</u>
11/98-4/99	\$ 1,451,572	687,328	\$ 2,138,900
11/99-4/00	1,749,787	801,525	2,551,312
11/00-4/01	<u>-1,235,609</u>	<u>-686,731</u>	<u>-1,922,340</u>
Total	\$1,965,750	\$ 802,122	\$ 2,767,872

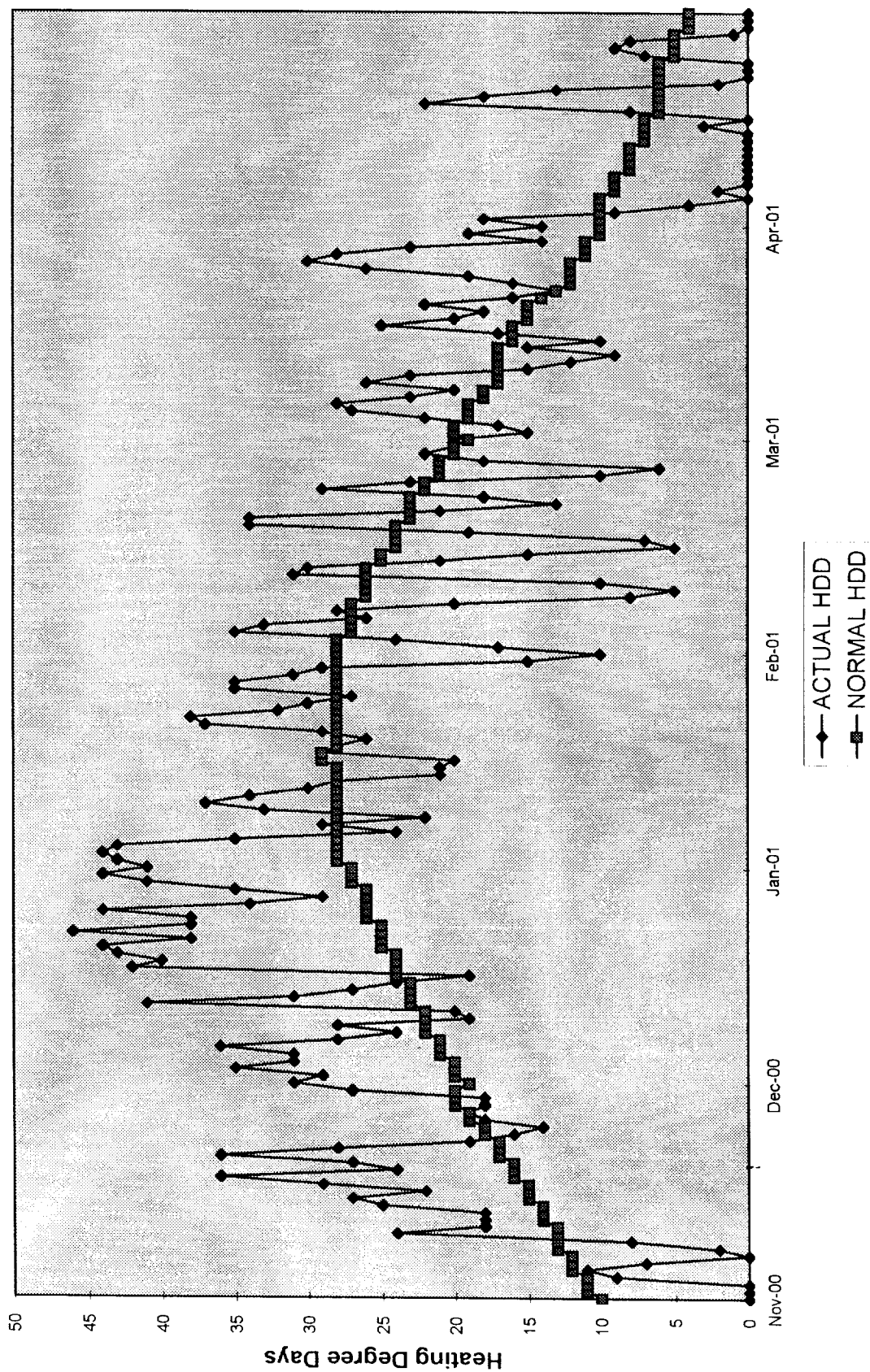
United Cities Gas Company
Comparison of Actual to Normal Heating Degree Days
Bristol Weather Station



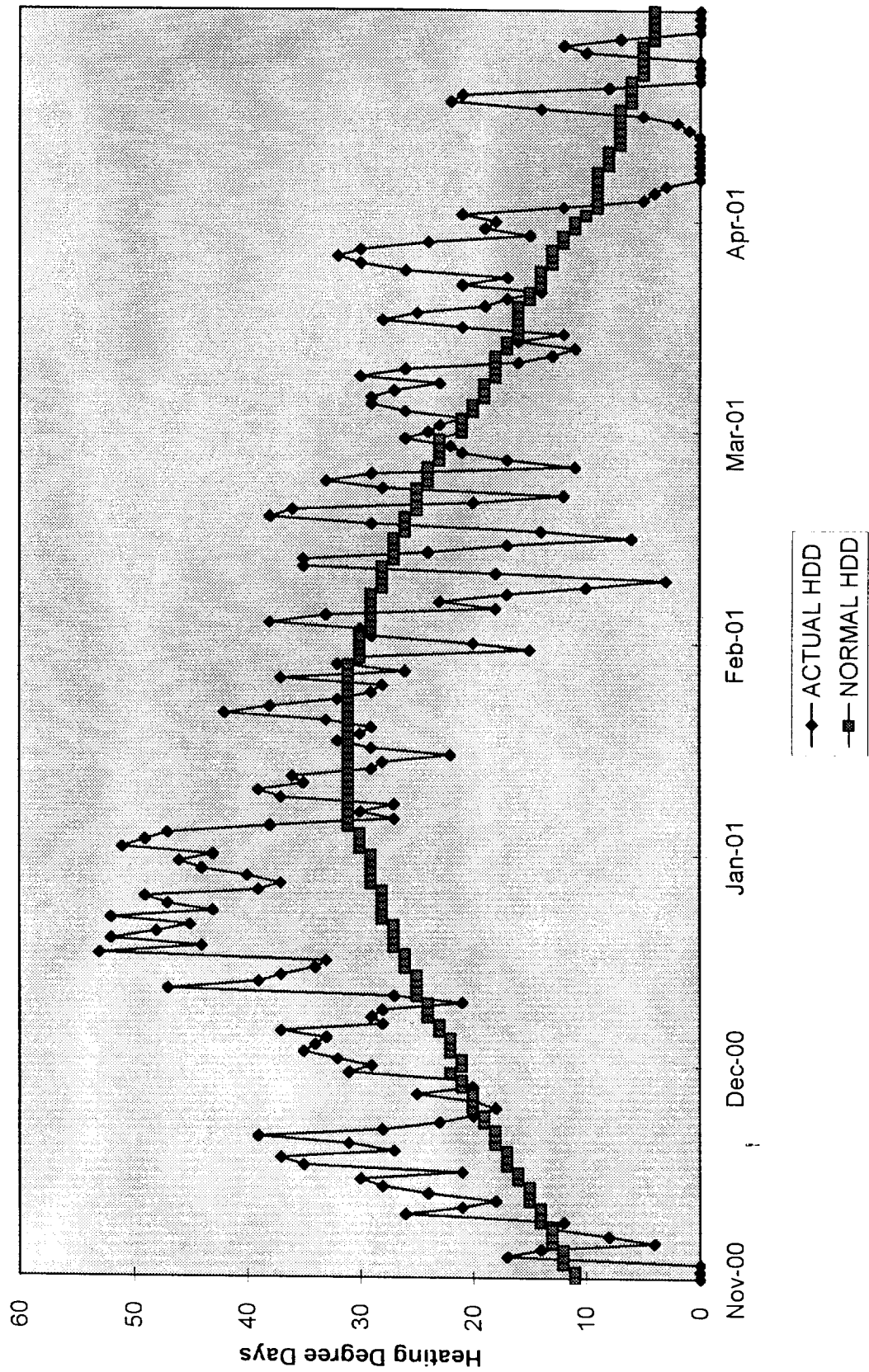
United Cities Gas Company Comparison of Actual to Normal Heating Degree Days Knoxville Weather Station



United Cities Gas Company
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station



United Cities Gas Company
Comparison of Actual to Normal Heating Degree Days
Paducah Weather Station



V. BACKGROUND INFORMATION ON THE COMPANY

United Cities Gas Company ("UCG"), with its principal office at 810 Crescent Centre Drive, Franklin, Tennessee, is a division of Atmos Energy Corporation, located in Dallas, Texas. UCG is a multi-state gas distributor, providing service to multiple communities in Tennessee. The gas to serve these areas is delivered by four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission. The four interstate pipelines are East Tennessee Natural Gas ("ETNG"), Texas Eastern Transmission Corporation (TETC), Columbia Gulf Transmission Corporation ("CGTC"), and Texas Gas Transmission Corporation ("TGTC").

ETNG provides service to UCG in Tennessee for the Columbia, Shelbyville, Lynchburg, Maryville-Alcoa, Morristown, Bristol, Elizabethton, Gray, Greeneville, Johnson City, and Kingsport areas.

TETC and CGTC provide service to UCG in Tennessee for Murfreesboro, Nolensville, Franklin, and adjacent areas in Rutherford and Williamson Counties.

TGTC provides service to UCG in Tennessee to Union City and adjacent areas in Obion County.

VI. WNA FINDINGS

The Staff's audit results showed a **net overrecovery** from UCG's ratepayers in the amount of **\$47,883**. This overrecovery resulted from two findings, which are summarized below.

SUMMARY:

FINDING #1	Inaccurate Actual Heating Degree Days	\$40,614	Overrecovery
FINDING #3	WNA billed in May 2001	<u>7,269</u>	Overrecovery
	NET RESULT	<u>\$47,883</u>	Overrecovery

FINDING #1:**Exception**

The Company used inaccurate actual daily heating degree days in the calculation of the WNA factor.

Discussion

The audit period consisted of 848 weather observations (212 days in the period times four weather stations). Our audit indicates that the Company used inaccurate actual daily heating degree days in the calculation of the WNA factor on 26 days of the WNA period. These inaccuracies are usually due to the fact that occasionally the daily heating degree days published in NOAA's Local Climatological Data are different from the daily heating degree days that the Company obtains for a particular day from the local NOAA weather station or the NOAA internet site. These differences are usually small (1 or 2 degree days). In other instances, weather data is inaccurately input into the Company's computer. The larger differences reflected on 10 of the days below suggests there might be a manual input problem.

The days involved were:

Weather Station	Date	Daily Degree Days Used By Company	Daily Degree Days As Published By NOAA	Degree Day Difference
Paducah	10/30/00	6	1	-5
	12/19/00	51	52	+1
	01/02/01	48	49	+1
	02/01/01	29	30	+1
	02/22/01	26	33	+7
				+5
Nashville	11/04/00	3	9	+6
	11/14/00	18	25	+7
	11/17/00	28	29	+1
	01/15/01	19	20	+1
Knoxville				+15
	10/06/00	2	3	+1
	10/13/00	20	7	-13
	01/02/01	39	40	+1
	01/08/01	27	28	+1
	01/29/01	23	19	-4
	01/31/01	17	18	+1
	02/13/01	16	18	+2
	02/17/01	27	28	+1
	04/05/01	3	4	+1
				-9

Weather Station	Date	Daily Degree Days Used By Company	Daily Degree Days As Published By NOAA	Degree Day Difference
Bristol	10/06/00	3	4	+1
	10/08/00	14	26	+12
	10/09/00	24	25	+1
	11/08/00	11	0	-11
	12/03/00	35	36	+1
	12/19/00	30	40	+10
	03/02/01	19	16	-3
	03/04/01	9	10	+1
				+12
			Total	+23

The net result of these actual degree day errors is that the customers were **overcharged \$40,614.**

Company Response

The Company agrees with the audit findings in that the inaccuracies from the daily weather provider were used to calculate the daily WNA amount. The Company is at the mercy of the weather provider for the daily data. The Company strives to provide the customer with the best degree-days possible. The Company has installed a download program that should reduce any manual input errors.

FINDING #2:

Exception

Customers were billed a WNA adjustment in May 2001, which is outside the WNA computation period.

Discussion

United Cities WNA Adjustment Rider states that WNA adjustments will be calculated during the months of November through April of each year. However, customers on the first two cycles of May were billed a WNA adjustment. The Company identified the problem in June 2001 and immediately notified the TRA Staff. The Company explains that the erroneous billing occurred because meter readings for these cycles were scheduled early. The computer billing program then picked them up in April and applied a WNA calculation. To ensure that this error doesn't recur, the Company states that it will no longer permit meter readings to be scheduled early in the shoulder months of November and April.

The net result of the Company's May billing error is that the customers were **overcharged \$7,269.**

Company Response

The Company agrees with the audit findings and has taken steps to prevent this from happening in the future.

VII. RECOMMENDATIONS AND CONCLUSIONS

In our report on the last heating season (1999 – 2000), the Company had experienced multiple problems associated with the assimilation of United Cities into the Atmos Energy corporate structure and a new billing system conversion. By the end of the Staff's audit, the Company had assured the TRA that all the technical "bugs" had been addressed and corrected and the Company did not anticipate any problem with the process in the 2000 – 2001 heating season. We are happy to report that the reporting requirement of the WNA Rider went smoothly this year. The Company experienced no problems with the data received from Dallas and, except for the billing of two cycles in May (Finding #2), all technical problems appear to have been corrected. Therefore, we conclude that except for the findings noted in this report, the Company is correctly implementing the mechanics of the WNA Rider as specified by the TRA and included in the Company's tariff. (See Attachment 1)

The net overcollection based on the findings is immaterial (approximately \$0.41 per customer), therefore we recommend that the Company include this overcollection in its next Refund Due Customers filing with the TRA. This is the method the Company has customarily used.

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDERProvisions for Adjustment

The base rate per therm/Ccf (100,000 Btu) for gas service set forth in any Rate Schedules utilized by the Tennessee Regulatory Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all residential and commercial bills based on meters read during the revenue months of November through April.

Definitions

For purpose of this Rider:

"Regulatory Authority" means the Tennessee Regulatory Authority

"Relevant Rate Order" means the final order of the Regulatory Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Regulatory Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per therm/Ccf by the following formula:

$$WNA_i = R_i \frac{(HSF_i \quad (NDD-ADD) \quad)}{(BL_i \quad + \quad (HSF_i \times ADD))}$$

Where

i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification

WNA_i = Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per therm/Ccf

R_i = weighted average base rate of temperature sensitive sales for the i^{th} schedule or classification utilized by the Tennessee Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER (Continued)

- HSF_i = heat sensitive factor for the ith schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- NDD = normal billing cycle heating degree days utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- ADD = actual billing cycle heating degree days
- BL_i = base load sales for the ith schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

Filing with Regulatory Authority

The Company will file as directed by the Regulatory Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

Heat Use/Base Use Factors

<u>Town</u>	<u>Residential</u>		<u>Commercial</u>	
	<u>Base use Ccf</u>	<u>Heat use Ccf/HDD</u>	<u>Base use Ccf</u>	<u>Heat use Ccf/HDD</u>
Union City	13.906292	.156369	124.595029	.453633
Columbia Shelbyville Franklin Murfreesboro	13.035323	.173948	99.021858	.624513
Maryville Morristown	13.886330	.153366	111.454966	.658649
Johnson City Elizabethton Kingsport Greeneville Bristol	10.696903	.162066	169.773651	.611201